# Fort Garry Brewing Company Ltd
# 2004 Annual Report

FGB

FORT GARRY

MANITOBA'S OWN — SINCE 1930

# Manitoba's Brewery

## *Report To Shareholders*

The year 2004 has been the first full fiscal year after amalgamation with Two Rivers Brewing Co. Ltd. and the financial results are directly related to the amalgamation and the strategy that was implemented.

Fort Garry management continues in its efforts to build upon the synergies that resulted from the amalgamation and improving upon the operating efficiency of the plant. Fort Garry operates in a dynamic industry, dominated by some extremely large competitors with well-established brands and large marketing and sales budgets.

The Manitoba market continues to show no signs of increase in overall volume and with bottle decline and the increased volume in cans, Fort Garry management has a great deal of work to do in 2005. In spite of this industry change from bottles to cans, Fort Garry has managed to increase sales volume by 14% over 2003 and reduce the cost of production by 6% on a per hectolitre basis from the previous year.

As we move into 2005 with a far better financial position than one year ago, with cash in the bank and a reduced debt load, we look forward to the opportunities that await us.

The marketing and sales of our brands in Saskatchewan, Alberta and Chicago are performing well. We may devote more resources in 2005 to address these markets.

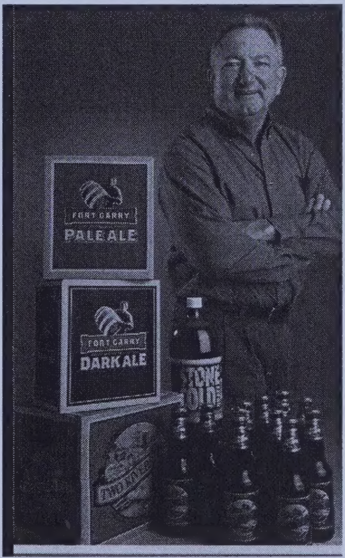
I want to again thank our employees, directors, and suppliers for the hard work, dedication, and long hours required to bring these positive results about. I also want to thank our shareholders for the patience and support they have shown Fort Garry in our journey to create a great brewing company, and we hope to count on everyone's continued support for 2005.

Fort Garry Brewing Company Ltd. is Manitoba's only brewer and distributor of premium, popular and discount beers including Fort Garry Dark Ale, Fort Garry Pale Ale, Fort Garry Premium Light, Frontier Pilsener, Fort Gibraltar Premium Lager, Two Rivers Lager, Two Rivers Light, Two Rivers Red, Stone Cold, Cold One and Rural Route Lager. Albino Rhino is produced for Earl's restaurant chain in Manitoba.

Cheers,

Doug Saville

Doug Saville
President and Chief Executive Officer



## *Management Discussion and Analysis*

The following discussion and analysis provide a review of the activities, results of operations, and financial condition of Fort Garry Brewery Company Ltd. for the twelve months ended December 31, 2004 in comparison with the twelve months ended December 31, 2003. This analysis should be read in conjunction with the accompanying financial statements and notes.

**Description of Business:**

Fort Garry Brewing Company Ltd, is a Winnipeg-based regional brewery that brews premium beers and quality Manitoba lagers for markets in Manitoba, Alberta, Saskatchewan, and Chicago. The company's brands are packaged in both glass and plastic bottles as well as in draught kegs. Operations include the brewing, distribution and marketing of the Fort Garry and Two Rivers beer brands to accounts in the company's market area.

Beer sales are generally dependant to a significant degree on the weather and the seasons. Spring and summer months (second and third quarters) are historically stronger than autumn and winter months (first and fourth quarters).

**Results of Operations**

Sales volume is reported on a hectolitre basis – one hectoliter is approximately 12.2 cases of 24 bottles.

Sales

Sales revenue in 2004 increased 15.6% primarily due to the additional revenue gained from Two Rivers brands since amalgamation date, price increases, and a reduction in provincial mark-up for small brewers implemented in early 2003.

Total sales volume for the year ended 2004 amounted to 16,254 hectolitres an increase of 14% compared to the 2003 volume of 14,264 hectolitres.

Cost of Sales

Cost of sales as a percentage of sales for 2004 was 43% as compared to 47% in 2003. The decrease is a result of production synergies experienced after amalgamation and economies of scale. Fixed costs such as labour and distribution decreased as a percentage of sales due to their fixed nature in relationship to the increase in volumes.

Gross Profit

Gross Profit increased to 42% in 2004 from 38% in 2003. This increase is attributed to the reduction in cost of sales and increased selling prices.

Selling, General and Administration Expenses

Selling, general and administration expenses are comprised of promotional materials, marketing campaign costs, advertising, sponsorships, automobile and sales representative expenses, sales salaries and commissions, administration salaries, office and building costs, public company costs, professional fees, insurance and taxes.

The increase in selling, general and administration expenses in 2004 was the result of a more aggressive marketing strategy and the hiring of a second full time Sales Representative.

## *Management Discussion and Analysist*

Interest on Long-Term Debt

Interest expense on long-term debt in 2004 totaled $103,213 compared to $279,204 in 2003. This decrease is primarily a result of the conversion of debt to equity at amalgamation and reduction of long-term debt.

Net Loss

The resulting net loss in 2004 was $685,111 or $.14 per share as compared to a net loss of $498,162 or $.14 per share in 2003. This loss is a combination of two components, an operating loss of $153,455 and a one time Goodwill write down of $531,656. The Goodwill arose from the merger of Fort Garry Brewery Company and Two Rivers Brewing Company in May 2003. The 2004 operating results represent an improvement of 69.2% over comparable 2003 results.

**Financial Position**

Accounts receivable increased in 2004 by $15,262 as compared to 2003 due to the higher sales volumes. Inventories decreased by $16,702 due to better management.

Capital assets decreased by $334,798 mainly due to amortization.

The returnable bottles asset has decreased by $71,067 due to amortization and no new bottle purchases.

**Liquidity and Capital Resources**

As at December 31st, 2004 the company had $231,602 cash available, as well as access to a $30,000 operating line within its bank credit facility on which it has not drawn upon in 2004.

Accounts payable decrease of $61,137 was due to decreases in Manitoba Corporation Capital tax, Two Rivers lease commitment and operating accounts payables.

Long-term debt (including the current portion) decreased in 2004 to $1,199,731 from $1,414,183 reported in 2003 largely due to principal payments of debt.

Long-term debt of $1,199,731 is included in current liabilities because it comes due in May 2005. Management is confident of arranging a continuation of senior banking facilities.

**Risks and Uncertainties**

The Canadian beer industry remains extremely competitive at all levels – national, regional, and micro. Fort Garry Brewing is the only brewery currently operating in Manitoba. The large national breweries closed their Manitoba plants several years ago, as did a previous microbrewery in the province.

Numerous competitive factors may influence a brewing company's market share and subsequent profitability. Product quality, taste, packaging, advertising and promotional support, brand recognition, price and distribution logistics are all key to the company's success. While other microbreweries or national breweries may produce alternative premium beers and value priced lagers that may be considered comparable to those produced by Fort Garry Brewing, management is confident that the Fort Garry beers possess the quality, value and consumer acceptance that will allow the company to maintain and increase its regional market share.

The Canadian beer industry is also a highly regulated industry that requires licenses and permits from all levels of government. Taxation at all levels is considerable and subject to changes as deemed appropriate by the various regulatory bodies. The company is currently in good standing with all regulatory bodies and in compliance with all necessary licenses, permits and approvals.

**Outlook**

The amalgamation of the two breweries' production and operations in May 2003 had a positive impact on sales and operating results for fiscal 2004. This impact can best be illustrated by the following table that outlines key selected financial data for the two time periods, plus the total for the year.

| | **Total 2004** | **Total 2003** | **Total 2002** |
|---|---|---|---|
| Sales Volume (in hectoliters) | 16,254 | 14,264 | 9,185 |
| Gross Revenue | $3,035,817 | $2,626,455 | $1,713,063 |
| Gross Profit | $1,260,567 | $1,005,664 | $472,509 |
| EBITDA* | $398,950 | $223,007 | ($332,834) |

*stands for earnings before interest, taxes, depreciation and amortization

While there are no guarantees the improved financial performance generated over fiscal 2004, the benefits of larger sales / production volumes achieved after the amalgamation are evident.

The company will seek to achieve continued growth in the sales of its brands and will continue to focus on profitability and gaining market share through increased marketing efforts and innovative packaging.

The company will continue to focus on the most efficient utilization of its resources in 2005 by monitoring costs to ensure they are necessary and adding value to the organization's efforts and ability to produce and sell beer.

By continuing to focus on sales growth, identifying additional production efficiencies, and cost control, Fort Garry Brewing anticipates favourable results in 2005.

kpmg

KPMG LLP
Chartered Accountants
Suite 2000 – One Lombard Place
Winnipeg MB R3B 0X3
Canada

Telephone (204) 957-1770
Telefax (204) 957-0808
www.kpmg.ca

## AUDITORS' REPORT

To the Shareholders of Fort Garry Brewing Company Ltd.

We have audited the balance sheets of Fort Garry Brewing Company Ltd. as at December 31, 2004 and December 31, 2003 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and December 31, 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted

KPMG LLP

accounting principles.

Chartered Accountants

Winnipeg, Canada

February 11, 2005

## FORT GARRY BREWING COMPANY LTD.
Balance Sheets

December 31, 2004 and 2003

| | 2004 | 2003 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 231,602 | $ 204,064 |
| Accounts receivable | 141,743 | 126,481 |
| Inventory (note 5) | 214,645 | 231,347 |
| Returnable glass (note 6) | 45,897 | 116,964 |
| Prepaid expenses | 40,899 | 47,268 |
| | 674,786 | 726,124 |
| Capital assets (note 7) | 3,587,516 | 3,922,314 |
| Goodwill (note 3) | -- | 531,656 |
| | $ 4,262,302 | $ 5,180,094 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 373,418 | $ 434,555 |
| Current portion of deferred lease payable | 14,414 | 14,414 |
| Current portion of long-term debt (note 8) | 1,199,731 | 1,414,183 |
| | 1,587,563 | 1,863,152 |
| Deferred lease payable | 55,252 | 69,667 |
| Preferred shares (note 9) | 793,345 | 736,022 |
| Shareholders' equity: | | |
| Capital stock (note 10) | 6,929,251 | 6,929,251 |
| Contributed surplus (note 10) | 22,444 | 22,444 |
| Deficit | (5,125,553) | (4,440,442) |
| | 1,826,142 | 2,511,253 |
| Basis of presentation (note 2) | | |
| Commitments (note 13) | | |
| Contingent liability (note 14) | | |
| | $ 4,262,302 | $ 5,180,094 |

See accompanying notes to financial statements.

On behalf of the Board:

_____________ Director

_____________ Director

Statements of Operations and Deficit

Years ended December 31, 2004 and 2003

| | 2004 | 2003 |
|---|---|---|
| Sales | $ 3,035,817 | $ 2,626,455 |
| Excise duty | (460,326) | (394,253) |
| | 2,575,491 | 2,232,202 |
| Cost of sales | 1,314,924 | 1,206,538 |
| Gross profit | 1,260,567 | 1,025,664 |
| Selling, general and administration | 887,656 | 820,867 |
| Other income | (26,039) | (18,210) |
| Income before the undernoted | 398,950 | 223,007 |
| Interest on long-term debt | 103,213 | 279,204 |
| Amortization | 391,869 | 374,235 |
| Loss on sale of equipment | -- | 31,708 |
| Dividends and retraction premium accrued on preferred shares | 57,323 | 36,022 |
| | 552,405 | 721,169 |
| Loss before the undernoted | (153,455) | (498,162) |
| Write-down of goodwill | 531,656 | --- |
| Loss for the year | (685,111) | (498,162) |
| Deficit, beginning of year | (4,440,442) | (3,942,280) |
| Deficit, end of year | $ (5,125,553) | $ (4,440,442) |
| Loss per share - basic and diluted (note 12) | $ (0.14) | $ (0.14) |

See accompanying notes to financial statements.

# FORT GARRY BREWING COMPANY LTD.
Statements of Cash Flows

Years ended December 31, 2004 and 2003

| | 2004 | 2003 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Loss for the year | $ (685,111) | $ (498,162) |
| Items not involving cash: | | |
| Amortization | 409,394 | 393,308 |
| Loss on sale of equipment | -- | 31,708 |
| Write-down of goodwill | 531,656 | -- |
| Accrued interest included in long-term debt | -- | 165,674 |
| Change in deferred lease payable | (14,415) | 25,860 |
| Change in non-cash operating working capital: | | |
| Accounts receivable | (15,262) | 7,977 |
| Inventory | 16,702 | (71,312) |
| Prepaid expenses | 6,369 | (7,654) |
| Accounts payable and accrued liabilities | (61,137) | (109,589) |
| | 188,196 | (62,190) |
| Financing activities: | | |
| Increase in long-term debt | -- | 1,100,000 |
| Payment of long-term debt | (214,452) | (811,081) |
| Accrued dividends and retraction premium on preferred shares | 57,323 | 36,022 |
| | (157,129) | 324,941 |
| Investing activities: | | |
| Cash on amalgamation (note 3) | -- | 267,100 |
| Additions to capital assets | (3,529) | (33,507) |
| Proceeds on sale of equipment | -- | 149,798 |
| Redemption of shares | -- | (10,000) |
| Transaction costs | -- | (293,932) |
| | (3,529) | 79,459 |
| Increase in cash position | 27,538 | 342,210 |
| Cash (bank indebtedness), beginning of year | 204,064 | (138,146) |
| Cash, end of year | $ 231,602 | $ 204,064 |
| Supplementary cash flow information: | | |
| Interest paid | $ 103,306 | $ 113,530 |

See accompanying notes to financial statements.

1. **General:**

Fort Garry Brewing Company Ltd. (the "company" or "FGB") is a Manitoba regional brewer and distributor of premium beers and quality Manitoba lagers. The company currently distributes beer primarily in Manitoba. The company's common shares are listed on the TSX Venture Exchange under the trading symbol FGA.

2. **Basis of presentation:**

These financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is doubt about the appropriateness of the use of the going concern assumptions because the company experienced significant losses in 2001, 2002, 2003 and 2004, has experienced negative cash flow from operations in years prior to 2004, has a significant deficit and working capital deficiency.

During fiscal 2003, the company amalgamated with another brewery (note 3), converted certain debt into capital stock and restructured other debt.

The ability of the company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the company renegotiating debt which is due in 2005, maintaining positive cash flow from operations and the continuing support of certain shareholders. There is no certainty that these and other strategies will be sufficient to permit the company to continue beyond December 31, 2005.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

### 3. Statutory amalgamation:

On May 15, 2003, FGB and Two Rivers Brewery ("TRB") consummated a statutory amalgamation. The statutory amalgamation of FGB and TRB was accounted for by the purchase method of accounting with FGB being considered the acquirer.

The purchase price for TRB was allocated to the fair value of assets acquired and liabilities assumed at the time of the amalgamation as follows:

| | |
|---|---|
| Current assets | $ 490,329 |
| Capital assets | 425,774 |
| Other assets | 3,430 |
| | 919,533 |
| Current liabilities | 304,560 |
| Long-term debt | 446,629 |
| | 751,189 |
| | 168,344 |
| Excess of consideration given over assigned values of net assets acquired, being goodwill | 531,656 |
| Consideration given | $ 700,000 |

The consideration given was 45 percent of the common shares of the amalgamated entity.

### 4. Significant accounting policies:

(a) Revenue recognition:

Revenue is recognized upon shipment of product at the gross sales price charged to the purchaser. Excise taxes, which are assessed on packaged goods, are recorded as reductions to gross sales prices.

(b) Inventory:

Inventory is valued at the lower of cost and net realizable value. Cost is generally determined on a first-in, first-out basis.

## 4. Significant accounting policies (continued):

(c) Returnable glass:

Returnable glass bottles are recorded at cost. The costs of bottles are amortized and charged to operations over their estimated useful life of five years.

(d) Capital assets:

Capital assets are recorded at cost. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets. Amortization rates are as follows:

| Asset | Rate |
|---|---|
| Production equipment | 7 years to 25 years |
| Furniture and fixtures | 4 years to 5 years |

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(e) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

Goodwill is not amortized and is tested for impairment annually in the third quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill is tested for impairment using discounted cash flows. Any impairment is charged to earnings. In 2004, there was an impairment of goodwill, which resulted in the write-down of goodwill to nil.

(f) Deferred lease payable:

The company received a period of rent deferral as part of the building lease arrangement. The company has accrued the value of this deferral and is amortizing it over the lease term.

**4. Significant accounting policies (continued):**

(g) Income taxes:

Income taxes are accounted for under the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs.

(h) Per share amounts:

Per share amounts are computed using the weighted average number of shares outstanding during the period. Diluted per share amounts are computed using the treasury stock method, as if all the common share equivalents such as options and warrants had been exercised at the beginning of the reporting period, or the period of issue, and that the funds obtained thereby were used to purchase common shares of the company at the average trading price of the common shares during the period.

(i) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

**5. Inventory:**

| | 2004 | 2003 |
|---|---|---|
| Raw materials | $ 122,189 | $ 140,397 |
| Work in process | 39,945 | 48,042 |
| Finished goods | 52,511 | 42,908 |
| | $ 214,645 | $ 231,347 |

## 6. Returnable glass:

| | | 2004 | | 2003 |
|---|---|---|---|---|
| New glass | $ | 382,438 | $ | 382,438 |
| Accumulated amortization | | 336,541 | | 265,474 |
| | $ | 45,897 | $ | 116,964 |

## 7. Capital assets:

| 2004 | | Cost | | Accumulated amortization | | Net book value |
|---|---|---|---|---|---|---|
| Furniture and fixtures | $ | 43,289 | $ | 43,289 | $ | -- |
| Production equipment | | 4,157,028 | | 1,054,338 | | 3,102,690 |
| Leasehold improvements | | 1,035,233 | | 550,407 | | 484,826 |
| | $ | 5,235,550 | $ | 1,648,034 | $ | 3,587,516 |

| 2003 | | Cost | | Accumulated amortization | | Net book value |
|---|---|---|---|---|---|---|
| Furniture and fixtures | $ | 43,290 | $ | 38,440 | $ | 4,850 |
| Production equipment | | 4,153,497 | | 824,382 | | 3,329,115 |
| Leasehold improvements | | 1,035,234 | | 446,885 | | 588,349 |
| | $ | 5,232,021 | $ | 1,309,707 | $ | 3,922,314 |

## 8. Long-term debt:

| | 2004 | 2003 |
|---|---|---|
| Term loan [a] | $ 589,731 | $ 804,183 |
| Term loan [b] | 610,000 | 610,000 |
| | 1,199,731 | 1,414,183 |
| Current portion | 1,199,731 | 1,414,183 |
| | $ – | $ – |

**Term loans:**

(a) The interest rate is a floating rate of bank prime plus 3.0% and is payable monthly. Monthly principal payments are $17,871 until May 2005 at which time all outstanding interest and principal are due. The loan is secured by a general security agreement with a security interest over all brewing and bottling equipment with appropriate insurance coverage loss payable to the lender.

(b) Interest is a floating rate of bank prime plus 2.5% and is payable monthly. The loan is repayable in full on or before May 31, 2005. The loan is secured by a guarantee of a shareholder, for which the company paid a fee of $14,031 (2003 - $7,153).

In 2004 and 2003, the term loans are classified as current liabilities as they are repayable in full within the following year.

## 9. Preferred shares:

| | Number | $ |
|---|---|---|
| Authorized: | | |
| An unlimited number of class A non-convertible, non-voting preferred shares issuable at $1 per share and paying a cumulative annual dividend of 4% | | |
| Issued: | | |
| Balance, December 31, 2004 | 700,000 | $ 700,000 |

Outstanding at May 15, 2003 were $2,626,464 of subordinated debentures and capitalized interest. On May 15, 2003, all subordinated debentures and capitalized interest was converted into 700,000 cumulative 4 percent preferred shares and the balance to common shares (note 10).

The preferred shares will be retractable at the option of the holder on the sixth anniversary of the issuance of the share, being May 15, 2009, upon payment of $1.25 per share and upon payment of any accrued dividends. As required by generally accepted accounting principles, due to the retraction feature, these preferred shares are accounted for as a liability on the balance sheet.

As of December 31, 2004, there are $45,721 (2003 - $17,645) of accrued dividends and $47,624 (2003 - $18,377) of accrued retraction premium, resulting in the preferred shares having a carrying value of $793,345 (2003 - $736,022).

## 10. Capital stock:

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | Number | $ | Number | $ |
| Authorized: | | | | |
| An unlimited number of common shares for unlimited consideration | | | | |
| Issued: | | | | |
| Opening balance, December 31 | 4,976,698 | $6,929,251 | 5,900,686 | $4,629,163 |
| Conversion of shares upon amalgamation | -- | -- | 1,375,000 | 4,629,163 |
| Shares issued to lender upon conversion of loans (note 9) | -- | -- | 1,375,000 | 1,926,464 |
| Shares issued as consideration to Two Rivers Brewery shareholders upon amalgamation (note 3) | -- | -- | 2,250,000 | 700,000 |
| Costs associated with amalgamation | -- | -- | -- | (293,932) |
| Redemption of common shares | -- | -- | (23,302) | (32,444) |
| Ending balance December 31 | 4,976,698 | $6,929,251 | 4,976,698 | $6,929,251 |

During 2003, 23,302 common shares were redeemed for cash consideration of $10,000. The difference between the average cost of such shares, being $32,444, and the cash paid has been credited to contributed surplus.

In connection with the company's Initial Public Offering, options were granted to directors and a company advisor.

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | Shares | Weighted average exercise price | Shares | Weighted average exercise price |
| Outstanding, beginning of year | -- | $ -- | 315,500 | $ 1.15 |
| Forfeited | -- | -- | (237,500) | 1.20 |
| Cancelled on amalgamation | -- | -- | (78,000) | .99 |
| Outstanding, end of year | -- | $ -- | -- | $ -- |

## 10. Capital stock (continued):

**Warrants:**

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | Shares | Weighted average exercise price | Shares | Weighted average exercise price |
| Outstanding, beginning of year | – | $ – | 1,000,000 | $ 0.20 |
| Cancelled on amalgamation | – | – | (1,000,000) | – |
| Outstanding, end of year | – | $ – | – | $ – |

As a result of the amalgamation (note 3), all stock options and warrants were cancelled. No further stock options or warrants have been awarded.

## 11. Income taxes:

The income tax recovery differs from the amount that would be computed by applying the applicable federal and provincial statutory rates to income before the tax recovery. The reasons for the differences are as follows:

| | 2004 | 2003 |
|---|---|---|
| Income tax provision computed at statutory rates at 37.62% (2003 - 38.1%) | $ (258,000) | $ (190,000) |
| Change in income tax provision resulting from permanent differences | 217,000 | 31,000 |
| Income tax recovery | (41,000) | (159,000) |
| Valuation allowance | 41,000 | 159,000 |
| Net income tax expense | $ – | $ – |

## 11. Income taxes (continued):

The tax effects of the loss carry-forwards and other than permanent differences that give rise to future tax assets and future tax liabilities at December 31, 2004 and December 31, 2003 are presented below:

| | 2004 | 2003 |
|---|---|---|
| Future tax assets: | | |
| Net operating loss carry-forwards | $ 1,009,000 | $ 497,000 |
| Amounts deducted for accounting purposes in excess of amounts claimed for tax | 255,000 | 752,000 |
| Total gross future tax assets | 1,264,000 | 1,249,000 |
| Valuation allowance | (1,264,000) | (1,249,000) |
| Net future tax assets | $ – | $ – |

At December 31, 2004, the company has the following amounts available to reduce future years' income for tax purposes:

| | |
|---|---|
| Non-capital losses carried forward for tax purposes expiring: | |
| 2007 | $ 337,000 |
| 2008 | 1,413,000 |
| 2009 | 805,000 |
| 2010 | 163,000 |
| | $ 2,718,000 |

In addition, the company has an investment tax credit of $404,000, the benefit of which has not been reflected in these financial statements. The investment tax credits will expire between 2005 and 2007.

### 12. Per share amounts:

| | 2004 | 2003 |
|---|---|---|
| Net loss applicable to common shares | $ 685,111 | $ 498,162 |
| Weighted average shares for the year | 4,976,698 | 3,654,431 |
| Basic and diluted loss per share for the year | $ (0.14) | $ (0.14) |

The weighted average shares for 2003 reflect the amalgamated shares issued to the former shareholders of TRB and the FGB lender for debt conversion only since the date of amalgamation on May 15, 2003 and the amalgamated shares of FGB shareholders for the full year.

### 13. Lease commitments:

The company has leased office and warehouse space and equipment for varying periods expiring on or before 2009. The minimum future lease payments for the next five years and thereafter are as follows:

| | |
|---|---|
| 2005 | $ 179,346 |
| 2006 | 178,178 |
| 2007 | 178,178 |
| 2008 | 178,178 |
| 2009 | 44,545 |
| | $ 758,425 |

### 14. Contingent liability:

A letter of credit in the amount of $55,000 has been issued in favour of the Minister of National Revenue of Canada.

**15. Fair value of financial assets and financial liabilities:**

The fair value of the company's cash, accounts receivable and accounts payable and accrued liabilities approximates their carrying values.

The fair value of long-term debt approximates its carrying value as the terms and conditions of the borrowing arrangements are comparable to current market terms and conditions for similar items.

It is not practicable to determine the fair value of the preferred shares due to the underlying terms and conditions.

**16. Comparative figures:**

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

## *Company Information*

### Board of Directors

**Gary N. Coopland, Chairman of the Board**

Mr. Coopland is a Chartered Financial Analyst and holds a Bachelor of Commerce degree from the University of British Columbia. He established Ascent Consultants in 1992, specializing in pension investment management and corporate capital issues. In 1994 Mr. Coopland was appointed Chairperson of the Manitoba Superannuation Board and Chairman of its Investment Committee. In January 1998 he accepted a position on the Board of Ensis Growth Fund and chairs its Investment Advisory Committee. Gary is one of the original shareholders of the company.

**Jean-Paul Gobeil, CA, Audit Committee Chairman**

Mr. Gobeil is a Winnipeg-based Chartered Accountant and Certified Management Consultant. In 1997, he retired from the firm of Deliotte & Touche after 34 years in public practice as an auditor and management consultant. He currently serves as a board member and treasurer for the Winnipeg Regional Health Authority and is a member of the Board of Healthcare Employees Benefits Plan. He previously served as Chair of La Chambre de commerce francophone de Saint-Boniface and the St. Boniface General Hospital Auxiliary.

**Peter Walker**

In 1976, Mr. Walker received his Bachelor of Science (Microbiology) and in 1979, his Master of Science (Microbial Physiology), each from the University of Calgary. Mr. Walker has been involved in the brewing and malting business for over 22 years, having worked for Molson Breweries for 17 years and Dominion Malting for 5 years. He was a founding member of Two Rivers Brewery.

**Marcel Lecuyer**

Mr. Lecuyer obtained a Bachelor of Arts and Bachelor of Education from the University of Manitoba in 1971. He is the owner and President of Lecuyer Financial & Insurance Inc., a financial consulting and insurance business, which he established in 1992. He has received entrepreneurial awards, such as the 1989 Canadian Middle Manager of the Year for Imperial Life. He served on the Le Festival duVoyageur board as a director from 1986 to 1990, and as President from 1990 to 1992, and as a board member from 1988.

**Robert Sparrow**

Mr. Sparrow obtained a Bachelor of Arts Degree from the University of Manitoba in 1969. He is the owner and president of Norwood Hotel Co. Ltd., and Inn at The Forks LLP, both of which are located in Winnipeg, Manitoba.

**Harold Heide**

Mr. Heide is currently the Vice-President of ENSIS Management Inc., which manages the business and affairs of ENSIS Growth Fund Inc., a Manitoba labour sponsored venture capital corporation, and ENSIS Investment Limited Partnership, a private venture capital fund. Previously, he was the director of Risk Management for the Manitoba Capital Fund, and prior to that was Manager (Finance) for Monsanto Canada. Mr. Heide received his Bachelor of Commerce (Honours) Degree from the University of Manitoba in 1975. He is currently a director of Jazz Golf Equipment Inc.

**Ian Wright**

Mr. Wright currently is a management consultant and sits on several different boards. Previously, he served as President and Chief Executive Officer of the Manitoba Liquor Commission. Prior to that, Mr. Wright served as President and Chief Executive officer of the Manitoba Hazardous Waste Corporation and also served as Present and Chief Executive Officer of ICG Propane Inc. He received his Bachelor of Arts Degree from Mount Allison University in 1963 and received his Management Degree from the University of Western Ontario in 1986.

# *Company Information*

### Corporate Officers

Doug Saville
President and Chief Executive Officer

Gary Coopland
Chairman

Bob Mondor
Chief Financial Officer

Richard N. Hoeschen
Corporate Secretary & Legal Counsel

### Corporate Office

Fort Garry Brewing Company Ltd.
130 Lowson Crescent
Winnipeg, Manitoba
R3P 2H8
(204) 487-3678

### Internet Web Site

www.fortgarry.com

### Stock Exchange Listing

TSX Venture Exchange : FGA

### Investor Relations Contract

Doug Saville
Fort Garry Brewing Company Ltd.
130 Lowson Crescent
Winnipeg, Manitoba
R3P 2H8
(204) 487-3678

### Transfer Agent & Registrar

C.I.B.C Mellon Trust Company
One Lombard Place, Suite 750
Winnipeg, Manitoba
R3B 0X3
(204) 987-2490

### Independent Auditor

KPMG LLP Chartered Accountants
One Lombard Place, Suite 2000
Winnipeg, Manitoba
R3B 0X3
(204) 957-1770

### General Counsel

Monk Goodwin
444 St. Mary Avenue, Suite 800
Winnipeg, Manitoba
R3C 3T1
(204) 956-1060

### Annual General Meeting

Location and date to be
announced for June 2005